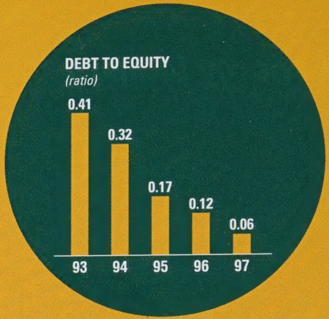
annual report to the shareholders 97

"moving the energy industry"

mullen transportation inc.

Corporate Highlights

($ thousands, except per share amounts)	1997	1996	% Change
For the year:			
Revenue	**228,522**	183,317	24.7
EBITDA	**42,185**	29,542	42.8
Net Income	**18,788**	11,585	62.2
Per Share	**1.43**	0.89	60.7
Cash Flow	**26,231**	19,595	33.9
Per Share	**1.99**	1.51	31.7
Acquisitions	**2,601**	14,971	(82.6)
Return on Equity (percentage)	**21.9**	16.6	31.9
At the end of the year:			
Total Assets	**137,331**	114,021	20.4
Working Capital	**45,515**	29,022	56.8
Total Long-term Debt	**5,291**	9,439	(43.9)
Shareholders' Equity	**95,917**	75,897	26.4



DEBT TO EQUITY

Mullen Transportation's acquisition strategy includes managing our debt to equity ratio below 0.5 to 1.0.

EARNINGS PER SHARE

Improved productivity and effective asset utilization resulted in a 60.7 percent increase in earnings per share in 1997.

diversity strategy service growth stability

Mullen Transportation is recognized as one of the **largest fleet operators** in the Canadian trucking industry and a major supplier of **trucking and logistics services** to the energy industry. From our base of operations in western Canada we have **expanded our business** through acquisition and industry consolidation. The theme of this year's annual report is **"moving the energy industry"** which captures how our business is leveraged to our customers in the **upstream and downstream** segments of the **oil and gas industry.**

Key Drivers Of Growth

Historical Annual Revenue

Mullen Transportation Inc.

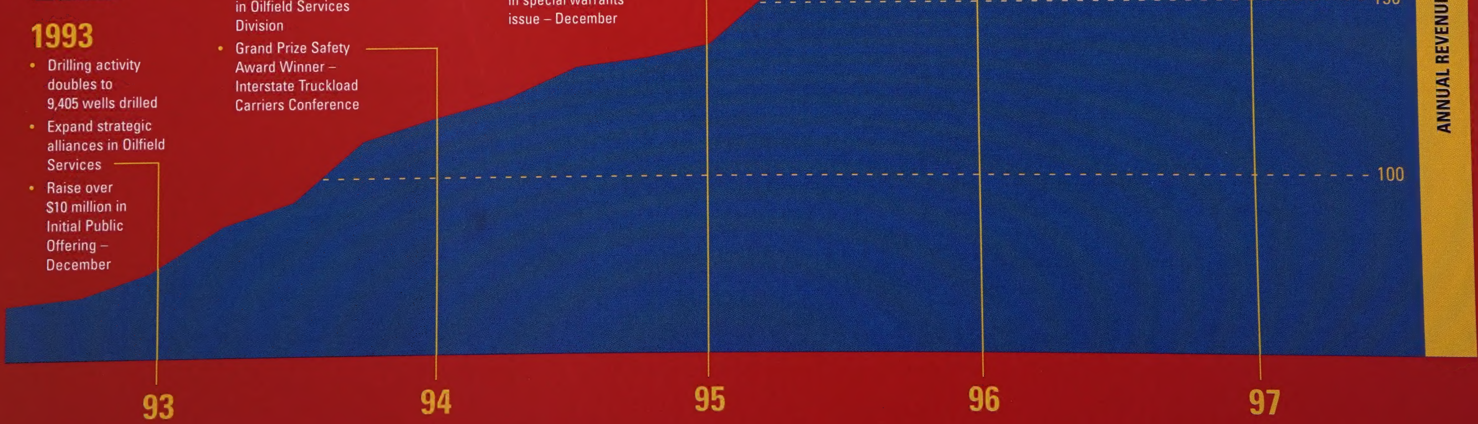
1993
- Drilling activity doubles to 9,405 wells drilled
- Expand strategic alliances in Oilfield Services
- Raise over $10 million in Initial Public Offering – December

1994
- Acquire Premay Group of Companies – October
- Install mobile satellite communication system in Oilfield Services Division
- Grand Prize Safety Award Winner – Interstate Truckload Carriers Conference

1995
- Acquire Grimshaw Trucking Ltd. – August
- Acquisitions drive growth
- Establish oilfield services terminal in Whitecourt
- Raise $17 million in special warrants issue – December

1996
- Acquire Cascade Group – March
- Successful acquisition strategy fuels growth
- Expanding North American economy increases demand for trucking services

1997
- Corporate reorganization to position the Company for future growth
- Acquire VLR Carriers Inc. – April
- Record levels of drilling activity – 16,485 wells drilled
- Demand for Mullen services increases with growth in all business sectors



Historically Speaking Over the past five years Mullen Transportation Inc. has experienced steady growth. We begin our growth chart in 1993, a year when the oil patch experienced dramatic growth, doubling drilling activity over 1992 and increasing demand for our services. As well, two significant strategic events spurred our growth in 1993 and set the stage for our future. First was expanding our strategic alliances with major oil and gas corporations giving Mullen Transportation contracts to move the majority of their rigs. These were the first of the 17 strategic alliances we currently have. Second was our Initial Public Offering in December 1993 which provided us with the capital to pursue our long-term strategy for growth through acquisition.

In 1994 we acted on this strategy by acquiring the Premay Group of Companies, a successful company specializing in the transport and planning of over-dimensional shipments, pipeline stockpiling and stringing in Canada. Premay tied in nicely with our diversification strategy by providing us with the vehicle to develop the Specialized Services Division to access opportunities in growing markets. Satellite technology evolved further changing the way we operate by eliminating the guesswork of scheduling and improving efficiencies for our drivers, owner operators, customers and service representatives.

That year we moved the Noble Drilling (Canada) drilling rig from Detroit to Newfoundland, signifying advances in the size and distance of our rig moves. 1994 was memorable because we won the prestigious Interstate Truckload Carriers Conference Grand Prize for best safety record in North America, an award coveted by 650 carriers across North America.

Our growth in 1995 largely reflected the success of our previous acquisitions. It was a slow year for the oil and gas sector and as a result, impacted the Oilfield Services Division. We acquired Grimshaw Trucking Ltd. and established the Regional LTL Division which further enhanced our diversification strategy. Grimshaw represented minimal investment for optimal value and we moved quickly to integrate this promising company into the Mullen Transportation group. We also purchased one of our major competitors in the oilfield rig moving business and opened an oilfield service terminal in Whitecourt, a strategic location to service the oil and gas industry. Finally, we issued special warrants in December 1995 raising $17 million to continue our acquisition strategy.

In 1996 we benefited from the buoyancy of the North American economy, strong demand for our transportation services and the prior strategic acquisitions. In March 1996, we added the Cascade Group to the Specialized Services Division which further diversified our services. Cascade is a premier transportation supplier of bulk commodities in pneumatic-type trailers.

We come to the conclusion of our timeline with a record year in 1997, spurred by record levels of drilling activity and an expanding economy in Canada. All sectors within the economy placed high demands on all of our divisions, maximizing equipment utilization rates throughout the Company. Our 1997 acquisition, VLR Carriers Inc. which transports two specialized products, continued our strategy to diversify our services. In January 1997 we underwent a corporate reorganization and changed our name to Mullen Transportation Inc. to reflect the diversity and new direction of our company.

Looking over the events that shaped Mullen Transportation Inc. throughout the past five years reaffirms our strategic vision and reinforces the strong management direction of our Company.

Murray Mullen, *President and Chief Executive Officer*

There have been a series of market events over the past few months reinforcing that change is not only inevitable but that its effects can be very unpredictable. We witnessed how the Asian crisis affected currencies, interest rates, stock markets and even commodity prices. From our perspective, the drop in the price of oil (below the psychological barrier of US$18 per barrel) during the fourth quarter of 1997 was most critical. It had an immediate impact on the market's interpretation of the amount of drilling activity the oil and gas industry would pursue in 1998.

Mullen Transportation management continues to monitor market events with a watchful eye. It is our contention that a conservative financial approach is the best hedge a company can have as protection from rapid shifts in the market. In fact, my view is these market conditions can produce exciting opportunities for companies prepared to watch and wait for the value to emerge. We are one of these organizations. We are well positioned to find opportunities in the existing economic climate and are poised to make strategic acquisitions.

Mullen Transportation achieved record financial results in 1997 because of our many loyal customers who entrusted their business to our Company. On behalf of the entire staff I would like to thank our customers for their continuing support. The excellent results also reflect the combined efforts of our committed employees and owner operators. All 1,250 of them have demonstrated true professionalism and are indeed a team of champions. I take this opportunity to thank the Mullen Transportation team for their dedication.

Let's review the results of our combined efforts in 1997.

For the fourth consecutive year revenues increased to new record levels, up by 25 percent over 1996. This performance was driven by three primary factors: first, the Canadian economy continued its strong growth; second, oil and gas drilling in western Canada reached record levels of activity; and third, timely strategic acquisitions positioned the Company for accelerated growth.

The combination of these factors resulted in consolidated revenues of $229 million in 1997. More importantly, our profits rose substantially to $19 million, an increase of 62 percent over the prior year. The record net income is due to higher equipment utilization, productivity gains and, to a lesser degree, improvements in pricing. These gains were shared with our hard working employees who received a pay out of $6.5 million in profit share. This may seem high but it reflects an ongoing commitment we have with our employees. Superior performance and productivity gains will be shared. Few companies can make such claims.

Our shareholders were the main beneficiaries of these impressive results. In fact, a 36 percent year-over-year gain in our common share price outperformed the TSE 300 Composite Index which rose 25 percent. This is the fourth year we've beat the index, the same number of years we have been a public company.

Success, however, is measured in more ways than financial results. Our drivers and owner operators drove more miles and had fewer accidents than ever before.

As well, Mullen Transportation embarked on a major program to upgrade skill levels of every employee in the organization. The time committed to carry out this effort was significant, but our results show that it was worth it and I'm convinced we will continue to see the long-term benefits of the initiatives. Our program included:

- *a two-day in-house Professional Driver Improvement course for 250 drivers and owner operators in the Truckload Division;*
- *a five-day in-house Field Supervisors course for all 70 supervisors in the Oilfield Services Division;*
- *a two-day in-house Leadership Forum for 47 leaders in the Company, an annual event designed to ensure that our leaders have the right skills to manage our growing and increasingly complex organization;*
- *specific individual skills upgrading and training in quality and customer service; and,*
- *twenty-two employees graduated from a two-year Business Management Certificate Program sponsored by Mullen Transportation.*

Throughout 1997 our employees explored and celebrated in the challenge and the value of learning. This attitude translates into one of Mullen Transportation's competitive advantages.

Divisional Overview

Turning our attention to the individual divisions within our organization, I am pleased to report that every segment of our business grew and so did profitability, a testament to the success of our diversification strategy.

The Oilfield Services Division posted a stellar year, increasing revenue by 37 percent over last year. The increases resulted almost exclusively from productivity gains and higher equipment utilization rates due to record well completions in western Canada. Once again, this reinforces the soundness of our strategy to build on asset utilization, not asset accumulation. As a result, profitability in the division nearly doubled.

One of the pleasant surprises of 1997 was the turnaround in the Regional L.T.L. Division. Management at Grimshaw Trucking Ltd. streamlined its business, focused on customer service and re-energized their employees, and as a result produced record profits. I believe the foundation for continued growth has been set.

In the Specialized Services Division, Premay Equipment Ltd. and the Cascade Group have established their place as the market leaders in their respective areas of business. Both companies achieved very high utilization rates of their specialized equipment fleets benefiting from record levels of capital spending by the oil and gas construction and building industries in western Canada. Business continues to look bright for these two new companies.

Premay Pipeline Hauling Ltd. struggled last year primarily because pipeline activity in Canada was reduced. We expect that environment will improve in 1998, a subject I'll expand upon later in my message.

Our newest acquisition, VLR Carriers Inc. specializes in transporting anhydrous ammonia and liquid petroleum gases. It did not produce the returns we expected in 1997, primarily due to market pricing. I want to stress that this is in no way a reflection on the quality of service provided. VLR employees had an almost impeccable safety record for their seven months of operation with Mullen Transportation. However, it is recognized that margins must be improved.

The long-haul Truckload Division contributed solid revenue growth and earnings, a strong indicator of growth in the Canadian economy. The division's profitability was enhanced by relatively low fuel costs, one of the largest expenses in the business. Results were not as impressive as our other divisions. Nonetheless, this unit has shown a consistent pattern of revenue and profitability growth and maintains one of the highest returns on invested capital in the organization.

On a consolidated basis, the growth and profitability that we achieved last year was accomplished without any significant acquisitions. Our strategy in 1997 was to concentrate management's energies and efforts on maximizing opportunities within existing business units. Acquisition values were simply too high for consideration last year. I have said on many occasions that Mullen Transportation is a disciplined buyer. Growth for the sake of growth is not in our strategy. Investments are made for the long term with the expectation that our shareholders will be the ultimate beneficiaries of these strategies.

Now we set our sites on 1998.

Outlook

There is no question 1998 will be an interesting year. The next 12 months will see Mullen Transportation accelerate the industry consolidation strategy we began in 1994. It is our contention that few companies in our business are as well positioned to aggressively pursue a strategy of acquisition. Today we have an under-leveraged balance sheet and a long list of exciting opportunities. Our strategy is supported by a strong balance sheet which includes a cash position of $32.5 million at year end, and a debt to equity ratio of .06 to one. We currently have in excess of $70 million of capacity to pursue corporate acquisitions while still remaining conservatively financed. Our targets will continue to be either in the oilfield services industry or in the trucking industry, areas where we have developed strong business relationships.

In terms of industry outlook, we expect the oil and gas drilling industry will experience a moderate decline primarily because of the recent drop in oil prices. However, our long-term view is that prices will rebound, drilling activity will reach new highs and Mullen Transportation will have a significantly larger market share than it does today. The "when" of that prediction is difficult to answer. Influences, including world economic growth, determine the price of oil which in turn affects the level of drilling activity in Canada. On the other hand, gas drilling activity could increase significantly in the near future if the anticipated new pipeline capacity is added.

Furthermore, Premay Pipeline Hauling Ltd., one of Canada's premier pipe stringing and stockpiling contractors, will be a major benefactor of that activity.

While it is fair to say next year's results will be affected by drilling levels, I remind you that this is not our only business. Oilfield services related to upstream oil and gas activity account for 30 percent of our gross revenues while the downstream sector, where we expect growth in 1998, accounts for another 30 percent. The corresponding table highlights capital projects currently under construction and projects being planned in the areas of plant construction, building activity and pipeline expansion. These capital projects will have substantial trucking requirements. This tells us that business opportunities continue to expand in western Canada.

Interestingly, while Mullen Transportation is highly leveraged to the success of the oil and gas industry, at the same time the Company achieves some of its best returns when the price of oil falls. That is because fuel is our second largest variable expense and, as the price of fuel declines, so do our operating expenses.

Major Projects Impacting Western Canada's Economy

The following are some of the major projects which will have a significant impact on economic activities in western Canada:

Project	Investment
Alliance Pipeline Ltd. Partnership *Proposed natural gas pipeline from Fort St. John to Chicago*	**$3.4 billion**
Broken Hill Properties *Construction of diamond mine in Northwest Territories*	**$750 million**
Amoco Canada Petroleum Company Ltd. *Heavy oil expansion in Primrose/Wolf Lake and property development in Wabasca*	**$600 million**
Syncrude *Expansion of North Mine Project at Mildred Lake*	**$500 million**
Imperial Oil Ltd. *In situ production project at Leming Lake and expansion of in situ operation at Cold Lake*	**$780 million**
TransCanada Pipelines – Nexus Project *Gas pipeline expansion*	**$1.2 billion**
Nova and Union Carbide *Expanding ethylene production at Joffre and building a polyethylene plant near Joffre*	**$1.2 billion**
CE Alberta BioClean *Automobile fuel additive plant in the County of Strathcona*	**$850 million**
Shell Canada *Oilsands plant in the Fort McMurray area and in situ oilsands plant expansion in Peace River*	**$1.1 billion**
Shell Chemicals Canada and Mitsubishi Chemical Corp. *Ethylene glycol plant in Fort Saskatchewan*	**$350 million**
Suncor *Development of Steepbank Mine Project*	**$360 million**
Suncor *Oil pipeline from Fort McMurray to Hardisty*	**$250 million**

In Conclusion

Our strategy for 1998 is simple and straight forward – we will grow our business through market share enhancement and acquisitions. We will continue to invest for the long term in the areas of safety, skills training, education and technology. These quality initiatives will ensure that our business units continue to provide outstanding customer service, work towards our goal of excellence in motor carrier safety and remain the leaders in their markets. I have every intention of reporting to you next year that 1998 was another successful year for Mullen Transportation.

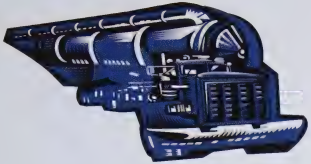
On a personal note, I would like to extend thanks to our six business unit leaders for their outstanding work throughout the year. And to my two trusted senior executives, Bob Baldwin and Dave Olson – I thank you for your tireless efforts and your continued support. I am fortunate to be working with such a competent team of people and I can assure our shareholders that their Company is in good hands and well represented.

On behalf of your Board of Directors,

Murray K. Mullen
President and Chief Executive Officer

February 17, 1998

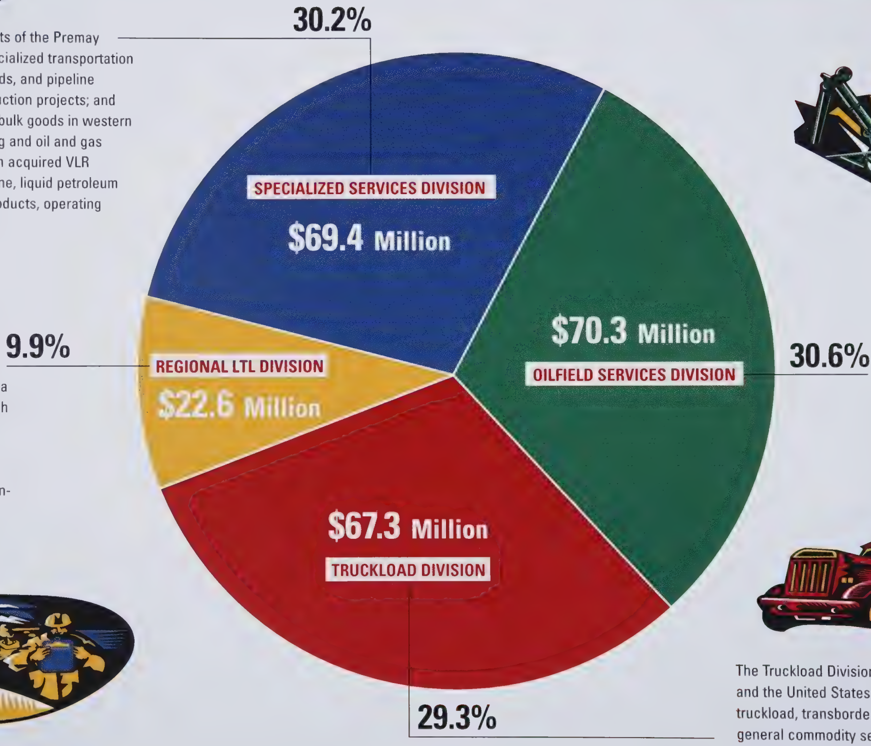
Mullen Transportation is a **primary supplier of transportation services** to the oil and gas industry through our four divisions: Oilfield Services, Specialized Services, Truckload and Regional L.T.L. Within these four divisions we are capable of providing complete **upstream and downstream transportation** services. Our success is based on the **strength and diversification** of our four divisions and our **extensive equipment fleet.** We employ over 1,000 people and serve customers throughout North America.



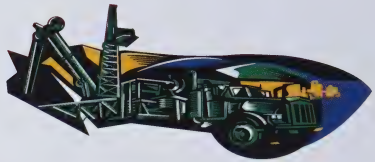
Revenue By Division

Total $229.6 Million*

The Specialized Services Division consists of the Premay Group of Companies which provides specialized transportation services for overweight and oversize loads, and pipeline hauling and stringing for pipeline construction projects; and the Cascade Group, a transporter of dry bulk goods in western Canada serving the construction, building and oil and gas industries. In April, Mullen Transportation acquired VLR Carriers Inc., a transporter of bulk propane, liquid petroleum gases (LPG) and anhydrous ammonia products, operating primarily in western Canada.



The Regional L.T.L. Division provides service to the oil industry, farming, manufacturing and other major industries in Alberta, British Columbia and the Northwest Territories through our regional carrier, Grimshaw Trucking Ltd. Shippers and about 200 communities in those regions rely on our daily scheduled, less-than-truckload service provided through a network of 23 terminal facilities, 120 trucks and 320 trailers.



The Oilfield Services Division supplies the western Canadian energy industry with transportation and logistics services including dismantling, hauling and rigging up of drilling rigs. Mullen Transportation is Canada's leading transporter of drilling rig components operating a fleet of 175 specialized trucks with four strategically located terminals. Currently, we have 17 alliances with major oil companies.

The Truckload Division provides clients throughout Canada and the United States requiring truckload and less-than-truckload, transborder and custom, irregular-route and general commodity services. Much of the work of the division is in oilfield related industries. The satellite services offered by Mullen Transportation enable clients to locate any one of the 276 cost-efficient trucks in our fleet, which is considered to be the newest in the industry.

* Prior to inter-divisional eliminations.

Strong oil and gas industry activity in 1997 translated into **record results** for the Oilfield Services Division which supplies services to the upstream segment of the industry. These results are due primarily to lower maintenance and operating costs and **better utilization of equipment.**

The Oilfield Services Division performs a vital service in transportation and logistics involved in the oil and gas industry. We provide our clients with the necessary equipment, technology and personnel to move drilling rigs efficiently and safely. The division works through a network of terminals strategically located in oil and gas drilling areas. Currently our terminals are in Leduc, Grimshaw and Whitecourt, Alberta and in Fort St. John, British Columbia.

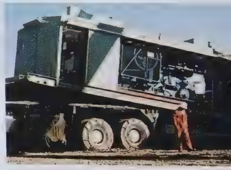
Our client base includes major oil companies, independent oil and gas operators and drilling contractors, with some of whom we have formed strategic alliances. Under the terms of these arrangements we move all the required supplies and equipment, including drilling rigs, to and from their drilling sites. We work with our clients to improve service and work site safety.

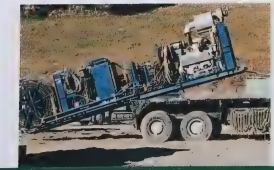
Due to the complicated nature of dismantling, hauling and rigging up a drilling rig, our fleet is equipped with a mobile satellite communication system. Every rig is equipped with two-way voice messaging which enables terminals to communicate with trucks in the field and drivers to communicate with each other, allowing us to respond immediately to customer requests and ensuring optimal equipment utilization.

The Oilfield Services Division has equipment to respond to diverse field conditions, much of which is off highway. Our equipment is manufactured to meet the demanding requirements of this difficult terrain and our drivers receive training to operate in the various challenging oilfield environments.

At December 31, 1997 the Oilfield Services Division operated 175 truck units consisting of 110 company owned units and 65 under contract with owner operators. We own 196 trailers and utilize an additional 58 trailers from owner operators. These trailers are designed for off-highway use and are capable of moving oversize and overweight loads.

Outlook for the Oilfield Division is tied directly to drilling activity levels. Overall levels are expected to decline in 1998 with an estimate of 14,000 wells. The primary reason for reduced activity in the drilling sector will be due to less oil drilling, particularly heavy oil projects. However, industry forecasts suggest an increased emphasis on natural gas drilling will occur in 1998.





The construction, building and **oil and gas related industries** in western Canada experienced **a buoyant year** in 1997 which was reflected in the **record results** in the Specialized Services Division. This **diversified business unit** operates under the Premay Group, the Cascade Group and VLR Carriers.

The Specialized Services Division is a diversified business unit within Mullen Transportation. Clients in engineering, procurement, mining, oil and gas, pipeline construction and building require the customized services and the extensive specialized equipment fleet provided by this division. Each unit within the division offers these unique services.

Premay Equipment Ltd. provides major transportation and logistics studies, including engineering and drafting services. The unit's specialized equipment includes multi-axle combinations with the capacity of transporting loads of up to 1,200 tons. Premay Equipment provides on going skills training to employees and has installed mobile satellite communication technology in all its trucks to meet the broad range of our clients' specialized requirements.

Premay Equipment is the leader in the specialized transportation market in western Canada with over 300 specialized tractors, off-highway vehicles and trailers. All equipment operated by the Company is designed to meet regulatory requirements for transporting oversized and overweight shipments.

Premay Pipeline Hauling Ltd. provides services for transportation, stockpiling and stringing for the pipeline construction industry. Our client base is centered in Canada and the United States and our fleet consists of 15 trucks, 32 trailers, one crane and three side booms. Premay Pipeline Hauling is positioned to benefit from a substantial increase in pipeline construction due to upstream drilling programs and pending oilsands developments.

The Cascade Group operates under two separate companies – Crone Brothers Ltd. and Veteran Transfer Ltd. – to provide services to clients in the construction, building and oil and gas industries with dry bulk transportation. Cascade operates a combined fleet of 635 pieces of equipment including 81 company owned trucks, 57 owner-operated trucks and 497 company owned trailers, of which 399 are pneumatic-type trailers, one of the largest fleets of specialized pneumatic trailers in Canada. Pneumatic trailers are required to transport dry bulk goods including cement, fly ash, lime and salt products.

Cascade is the primary carrier for Lafarge Canada Ltd. which represents approximately 60 percent of the group's gross revenues. Other clients are located in western Canada and are serviced through two terminals, one in Calgary and one in Edmonton, Alberta. Cascade is investing in technology and mobile satellite communications to enhance service to our clients.

VLR Carriers Inc. transports anhydrous ammonia and liquid petroleum gases (LPG). The company was acquired by Mullen Transportation in 1997 and operates in Alberta and parts of British Columbia and Saskatchewan. Our fleet consists of 55 specialized, pressurized trailers with various axle configurations, 14 lease operator tractors and 11 company tractors.

Outlook for the Specialized Services Division remains optimistic as the oil and gas industry continues to invest heavily in western Canada, and the construction and building industries continue to experience growth in the region.

The Truckload Division has benefited from **industry deregulation** and the North American Free Trade Agreement (NAFTA). Continued **economic prosperity** in Canada and the United States has **increased demand** for Mullen Transportation's Truckload Division throughout 1997.

The Truckload Division has an extensive network of regular clients covering Canada and the United States. Sixty percent of the miles driven and revenues generated by the division come from transborder shipments. The Truckload Division uses a diversified trailer fleet to transport commodities including: general freight, oilfield products, agricultural commodities, lumber and building materials, steel products, communications equipment and oversize and overweight shipments, such as bulldozers, graders and other heavy equipment.

At December 31, 1997 the division consisted of 276 trucks and 429 trailers. Four trucks are company owned, 116 are leased under arrangement with leasing companies and 156 are operated by the company under contract with owner operators.

We own and operate a diverse fleet of trailers including tandem and tri-axle flat decks, single-drops and vans. In addition, specialized heavy equipment trailers in the fleet are designed to transport oversize and overweight loads requiring special permits for transport.

The hub of the division is located in Aldersyde, approximately 30 kilometres south of Calgary, Alberta. The facility consists of 23,000 square feet of office space and 25,000 square feet of maintenance and shop area. A second facility, offering customer and driver service, is located in Milton, Ontario.

In 1997 Finning Canada, Syncrude Canada and Suncor Inc. provided the Truckload Division with a significant volume of business. Throughout the year we transported the parts and equipment required for Syncrude's Steepbank mine construction. The relationship with Syncrude continues to be promising with a formal alliance agreement signed late in the year which will provide all Mullen Transportation divisions with a higher volume of traffic across the continent.

Outlook for the division remains positive with a well distributed customer base both geographically and by the type of commodities hauled. The North American economy is predicted to follow its pattern of strong growth in 1998. Transborder shipments between Canada and the United States continues to be one of the fastest growing sectors in the trucking industry. The Truckload Division is well positioned to participate in this growth opportunity.

The division continues to invest in education and skills training, information technology, mobile satellite communications and new equipment, contributing to a strong competitive advantage.

REGIONAL L.T.L. DIVISION

Economic growth and capital spending in the Canadian north are primary factors contributing to **increased shipment levels** in this division. In 1997 the truck and trailer fleet was updated and overall operating **expenses were reduced** while customer service improved.

The Regional L.T.L. Division currently operates under Grimshaw Trucking Ltd., a company which has been in business for nearly 50 years. It serves the trucking needs of 200 communities in northern Alberta, British Columbia and the Northwest Territories providing regular scheduled deliveries, a vital service to the development and sustainability of the North. In today's fast moving world, the successful L.T.L. carrier must have an extensive network of terminals to support the communities they serve.

The division has 23 terminal facilities fed daily by shippers needing distribution services. Grimshaw's central terminal is located in Edmonton, Alberta. Approximately 1,000 shipments per day pass through this main distribution hub for next-day delivery. New technology is in the planning stages for our terminals to provide customers with enhanced service and eliminate unnecessary and duplicate costs.

Grimshaw currently operates a fleet of 26 highway trucks, 15 owner-operated trucks and 79 pickup and delivery units and a diverse trailer fleet to ensure customer requirements are met. Our fleet consists of about 320 heated, dry van, reefer, flat deck and pup type trailers. We have initiated a fleet upgrade program designed to ensure Grimshaw continues to be competitive. Competitive also means ensuring safety.

At Grimshaw, the safety and health of employees is a primary concern. In 1997, Grimshaw implemented a professional driver improvement course as well as a dockworkers course, which includes a training manual and demonstration video. Education and training in quality improvement has commenced through increased communication utilizing television monitors in our Edmonton terminal. This demonstrates our up-to-date measurement of safety and customer satisfaction results.

Outlook for the division is favourable as northern economic expansion and development occurs and capital continues to be invested in the region. Near-term growth opportunities for the division exist throughout western Canada. We also believe that an industry consolidation strategy is possible.

1997 was an **outstanding year** for the Company as we achieved record sales and net income which resulted in a **stronger financial position.** This is due to sound management decisions based on a solid understanding of the industry and **deliberate strategic growth.** Our ability to benefit from the buoyant economy in 1997 is also due to enhanced internal **operational efficiencies.** Going into 1998 we are **financially well positioned** with $32.5 million cash, $45.5 million working capital and only $5.3 million of debt, positioning us to pursue further acquisitions.

Our consolidated financial statements include the operations of the following companies:	
Truckload Division	• *Mullen Trucking Inc.*
Oilfield Services Division	• *FSJ L.A.N.D. Transport Ltd.* • *Oilfield branches of Mullen Trucking Inc.*
Specialized Services Division	• *Premay Equipment Ltd.* • *Premay Pipeline Hauling Ltd.* • *Cascade Group* – *Crone Brothers Ltd.* – *Veteran Transfer Ltd.* – *Siemens Transport & Services Ltd. (closed April 1997)* • *VLR Carriers Inc.*
Regional L.T.L. Division	• *Grimshaw Trucking Ltd.*

Revenue

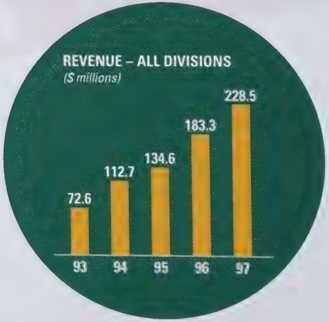
Revenues increased by $45.2 million to $228.5 million from $183.3 million in 1996. This 24.7 percent increase is due to higher revenues in each of the operating divisions indicating increased demands for our services created by record levels of oil and gas drilling activity in western Canada and strong growth in the Canadian economy. Increased revenue was also due to the inclusion of a full year of revenue from the Cascade Group as compared to 10 months in 1996, and by the eight months of revenue generated by VLR Carriers Inc. acquired in May 1997. The 1997 results also reflect the closure of Siemens Transport & Service Ltd. in April 1997 which resulted in a $3.4 million decline in revenue from the 10 months of revenue recorded in 1996.

Expenses

Direct operating expenses increased 19.9 percent to $160.7 million from $134.0 million in 1996 which reflects costs associated with the revenue increase. This increase was less than the 24.7 percent increase in revenue which indicates optimal equipment utilization, lower fuel costs and lower repair and maintenance costs as there were fewer one-time repair costs associated with acquisitions and fleet upgrades. The fleet upgrade in the Truckload Division caused a temporary increase in repair costs in 1996 which showed benefits in 1997.

Selling and administrative expenses increased 29.8 percent from $19.7 million in 1996 to $25.6 million in 1997. Most of the increase is due to the $3.6 million increase in the profit share allocated to administrative employees. If we exclude the profit share, the selling and administrative costs increased by $2.3 million in 1997 with a $45.2 million increase in revenue and were 8.7 percent of revenue in 1997 compared to 9.6 percent of revenue in 1996. The improvement is due to economies of scale and the 1996 restructuring in the Premay Group of Companies.

The employee profit share program was revised in 1997 to align employee and shareholder goals. Prior to 1997, profit share for each division was calculated based on the return on sales. The Company changed the method to a modified economic value-added basis, whereby each divisional profit share is calculated on return on invested capital which is defined as long-term debt plus equity. The first year using this plan resulted in a total profit share of $6.5 million versus $2.2 million in 1996. Employees and shareholders both benefited as the Company's return on equity increased from 16.6 percent to 21.9 percent. This return was realized despite ending the year with $32.5 million of low yield cash.



REVENUE – ALL DIVISIONS
Mullen Transportation's revenue has grown at a compound annual growth rate of 37 percent over the last five years.

The profit share is a variable expense which could decline to zero if profits as a percent of invested capital reduce to a certain level. This will enable the Company to lower costs in less profitable years without reducing its workforce and leaves a sound infrastructure in place.

Depreciation and amortization increased marginally from $6.2 million in 1996 to $6.5 million in 1997, a result of increased depreciation on asset additions.

Interest on long-term debt declined from $0.9 million to $0.6 million, reflecting the payout of all outstanding floating rate loans. As a result of the early payout, long-term debt declined by $4.1 million in 1997 leaving only fixed rate debt owing which may be paid out or renewed at new interest rates in 1998.

Net Income

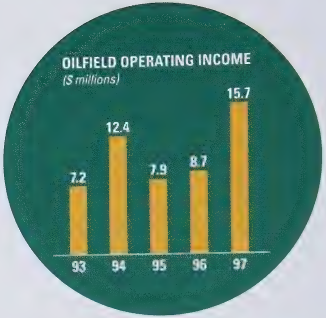
Net Income increased to $18.8 million or 8.2 percent of revenue in 1997 from $11.6 million or 6.3 percent of revenue in 1996. Earnings per share increased to $1.43 from $0.89 in 1996, a 60.7 percent increase. The operating ratio, which is the cost of sales before interest and taxes, improved to 84.3 percent from 87.3 percent.

The Company's return on equity increased to 21.9 percent in 1997 from 16.6 percent in 1996 despite the accumulation of $32.5 million of low yielding cash, which earned approximately two percent after tax. The Company is well positioned to use this cash to fund future acquisitions.

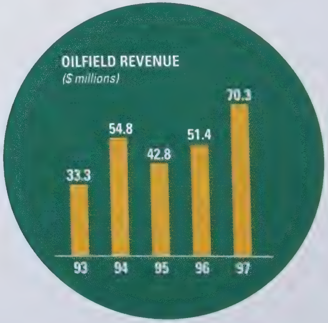
Divisional Results

($ millions)	Revenue		Operating Income		Percent of Revenue	
	1997	1996	**1997**	1996	**1997**	1996
Truckload	**67.3**	60.7	**8.8**	6.8	**13.1**	11.2
Oilfield Services	**70.3**	51.4	**15.7**	8.7	**22.3**	16.9
Specialized Services	**69.4**	52.9	**14.6**	10.9	**21.0**	20.6
Regional L.T.L.	**22.6**	20.0	**2.6**	1.9	**11.5**	9.5
Consolidated Adjustments	**(1.1)**	(1.7)	**0.5**	1.2	**–**	–
Total	**228.5**	183.3	**42.2**	29.5	**18.5**	16.1

Divisional revenue and operating income amounts are prior to inter-divisional consolidating adjustments. Operating income is defined as earnings before interest, taxes, depreciation and amortization (EBITDA).



OILFIELD SERVICES DIVISION – OPERATING INCOME
Better equipment utilization rates during 1997 resulted in an 80 percent increase in operating income.



OILFIELD SERVICES DIVISION – REVENUE
Record levels of drilling activity and an increase in the number of strategic alliances contributed to the 37 percent rise in revenue in 1997.

Oilfield Services Division

This division provides dismantling, hauling and assembly of drilling rigs though four strategically located terminals in western Canada. Revenue increased to $70.3 million in 1997 from $51.4 million in 1996, a 36.8 percent increase. Operating income increased to $15.7 million from $8.7 million, 80.5 percent higher than the previous year. Operating income as a percentage of revenue increased to 22.3 percent in 1997 from 16.9 percent in 1996. The increased revenue was a result of record levels of drilling activity and an increase in the number of strategic alliances in which the Company entered. Operating income improved due to better equipment utilization as drilling continued through the normally slower spring breakup period, as well as by the decrease in equipment upgrading costs which negatively affected 1996 results. Employee profit share, included in operating costs, increased to $2.9 million from $1.1 million.

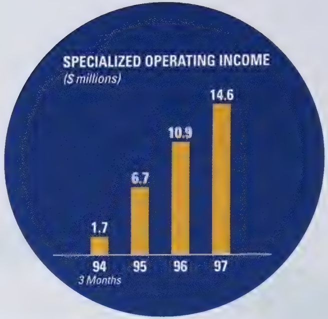
Specialized Services Division

This division consists of the Premay Group of Companies, the Cascade Group and VLR Carriers Inc. Premay provides specialized transportation services for oversize and overweight items, as well as pipeline hauling and stringing. The Cascade Group, acquired March 1, 1996, is a transporter of dry bulk goods in western Canada. In May 1997 Mullen Transportation acquired the operating assets of VLR Carriers Inc., a small pressurized liquid bulk carrier. VLR results are included in this division.

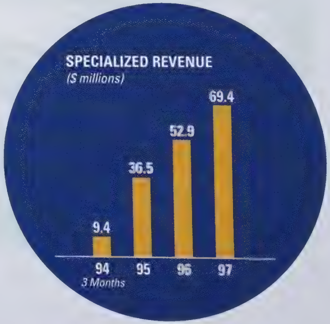
The Premay Group saw a substantial improvement in revenue and operating income in 1997. Revenue increased due to the large number of capital projects undertaken in Alberta. Operating income increased, reflecting the effect of reduced administrative costs in 1997 following the 1996 restructuring and the better equipment utilization we experienced during 1997.

The Cascade Group closed its Saskatoon and Regina terminals due to the loss of a contract with Lafarge Inc. in March 1997. This business had a low profit margin and the closures have had little impact on 1997 income. The excess equipment was redeployed into Alberta where record drilling activity and construction resulted in revenues exceeding the group's expectations and resulted in increased operating income.

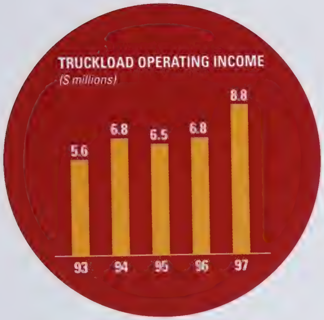
Revenues for the Specialized Services Division increased to $69.4 million in 1997 from $52.9 million in 1996, representing a 31.2 percent increase. Operating income in 1997 increased to $14.6 million or 21 percent of revenue from $10.9 million or 20.6 percent of revenue the previous year. The operating income increase was only marginally impacted by Premay Pipeline Hauling Ltd. which did not report the same strong results in 1997 as it did in 1996. Profit share costs for the division increased to $2.0 million from $0.9 million in the previous year.



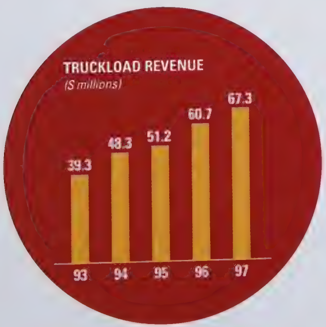
SPECIALIZED SERVICES DIVISION – OPERATING INCOME
Higher operating income in 1997 was the result of increased contributions from the Premay and Cascade Groups of Companies.



SPECIALIZED SERVICES DIVISION – REVENUE
The large number of capital projects, record drilling activity and the increased demand in the construction sector resulted in a 31 percent gain in revenue in 1997.



TRUCKLOAD DIVISION – OPERATING INCOME
Better equipment utilization, higher rates, consistent fuel prices and conservative capital expenditures accounted for the 29 percent increase in operating income in 1997.



TRUCKLOAD DIVISION – REVENUE
The combination of improved rates, demand for services and increased utilization of heavy equipment freight resulted in continued growth in revenue.

Truckload Division

Truckload is the Company's original operating division and provides irregular route truckload and less-than-truckload freight between Canada and the United States and within Canada. In 1997 revenue increased 10.9 percent to $67.3 million from $60.7 million in 1996. This increase is due to improved rates, high demand for services and increased heavy equipment freight resulting from the November 1996 acquisition of the transportation assets of Hampton's Oilfield Services. Operating income increased 29.4 percent in 1997 to $8.8 million from $6.8 million in 1996. As a percent of revenue, operating income increased to 13.1 percent from 11.2 percent. This is because of improved equipment utilization, better rates, consistent fuel prices, the lack of expenditure for fleet upgrades which occurred in 1996 and the effect of the division profit share which increased to $1.3 million from $0.5 million in 1996.

Regional L.T.L. Division

This division is based out of Edmonton, Alberta and provides less-than-truckload freight in Alberta, British Columbia and the Northwest Territories. The division increased revenue by 13 percent from $20.0 million in 1996 to $22.6 million in 1997, reflecting higher volumes and rate increases. Operating income increased 36.8 percent from $1.9 million to $2.6 million. Operating income in 1997 was 11.5 percent of revenue compared to 9.5 percent of revenue in 1996. Margins improved in 1997 due to the closing of an unprofitable traffic route and implementing productivity improvements.

REGIONAL L.T.L. DIVISION – OPERATING INCOME
The implementation of productivity improvements combined with the closing of an unprofitable traffic route caused increased margins in the division.

REGIONAL L.T.L. DIVISION – REVENUE
Improved market conditions produced higher volumes in 1997 resulting in rate increases in some sectors of the revenue mix.

Capital Expenditures

The Company completed a small acquisition in 1997, purchasing the assets of VLR Carriers Inc. for $2.6 million on May 1. VLR is a pressurized liquid bulk carrier. VLR transports anhydrous ammonia and liquid petroleum gases.

During 1997 the Company incurred $7.7 million of fixed asset additions and sold old or excess equipment for proceeds of $3.5 million for a net fixed asset expenditure of $4.2 million. Fixed asset additions were less than planned as some capital expenditures were delayed due to slow delivery times by suppliers. This will result in increased capital expenditures in 1998.

All capital expenditures in 1997 were financed from the Company's cash flow from operations.

Working Capital

Working capital increased by a net of $16.5 million to $45.5 million in 1997 from $29.0 million in 1996. Current assets increased by $21.2 million resulting from an $18.0 million increase in cash and a $3.2 million increase in accounts receivable due to higher revenues in the fourth quarter.

Current liabilities increased by a net of $4.7 million due to a $2.3 million increase in accounts payable related to increased costs associated with higher revenues, a $3.9 million increase in income taxes payable and a $1.5 million decrease in the current portion of long-term debt due to early payout of floating rate debt.

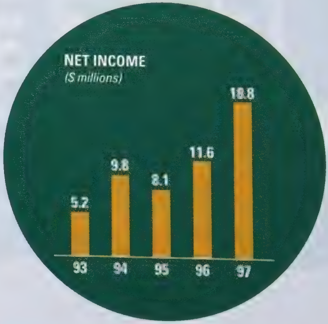
The working capital position of the Company is very strong and includes $32.5 million of cash available for future expansion. The Company also has an unutilized $25.0 million operating line of credit available for general corporate purposes.

Long-Term Debt

Long-term debt decreased by $4.1 million to $5.3 million in 1997, reflecting normal payments and early repayment of floating rate debt as the Company had excess cash yielding a lower rate than debt financing costs. At the end of the year all long-term debt had fixed rates of interest. However, all debt is renewable in 1998, at which time it will either be paid off or renegotiated at current rates, depending on cash requirements. The Company's debt to equity ratio declined to 0.06:1 at December 31, 1997 from 0.12:1 at December 31, 1996 due to the debt repayment and an $18.8 million increase in retained earnings. The Company has a $14.7 million line of credit available for real estate financing of which $4.7 million is in use as at December 31, 1997.

Equity increased by $20.0 million in 1997 resulting from a $1.2 million increase in share capital as stock options were exercised during the year and the addition of $18.8 million of net income to retained earnings. Book value per share increased to $7.25 from $5.82 in 1996, reflecting the $1.43 of earnings per share and the effect of the exercised stock options.

WORKING CAPITAL
The working capital position increased 57 percent in 1997, positioning the Company with a strong cash base for future expansion opportunities.



NET INCOME
The record net income in 1997 was achieved through higher equipment utilization, productivity gains and, to a lesser extent, pricing increases.

Business Risks

The Company has several business risks including levels of activity in the oil and gas industry which is influenced by oil and gas prices. The Company could also be adversely affected by a downturn in the economy in Canada and the United States and by fluctuations in capital expenditures of corporations in Canada and the United States. The Company has diversified the type of freight it hauls through acquisitions to reduce reliance on any single industry.

As a freight carrier, the Company is subject to lawsuits for accidents and cargo claims. This exposure is reduced by maintaining substantial insurance coverage and high safety standards to minimize accidents and loss or damage.

The Company is also subject to foreign exchange risk as it has US dollar revenue and US dollar costs. However, the net US dollars which are converted to Canadian dollars create an immaterial exchange risk.

The Company could be subject to loss of interest income on short-term investments if interest rates rise suddenly. The risk is minimal as cash is invested for up to six months with a portion maturing every month. Higher interest rates could also adversely affect interest expense when long-term debt is refinanced; however, interest expense is immaterial and rate fluctuation would result in minimal cost to the Company.

Mullen Transportation's leasing cost for tractors, primarily in the Truckload Division, could be adversely affected by a weaker Canadian dollar and increased interest rates which would inflate lease costs. The Company has dealt with this issue in the past by extending existing leases or hiring more owner operators instead of obtaining new leased trucks, thereby reducing the number of tractors leased under unfavourable terms.

Some of the Company's business units are party to negotiated labour agreements. The business units have maintained and continue to have good relations with their employees and their representatives. However, there is no assurance that future negotiations will result in finalized settlements. In these circumstances the business unit may be subject to a disruption in services provided by these employees.

Year 2000 Compliance

The Company has taken extensive steps to ensure all essential systems which are date sensitive are reprogrammed for the year 2000. Currently our mainframe operating software, our satellite communication software and the majority of the P.C. software is year 2000 compliant. We expect to have our main system software upgraded and tested for year 2000 compliance at a nominal cost in May 1998. We have established a year 2000 compliance committee to identify and ensure other systems such as telephones, EDI and other software interfaces with suppliers and customers - are made and tested for year 2000 compliance by the end of 1998. We expect the costs of year 2000 compliance will be immaterial and are including them as normal costs.

Outlook

In the 1996 annual report, the Company predicted 1997 would be another year of increased revenue and profits as the general economy improved, and Alberta led the way, driven by a strong oil and gas industry. Mullen Transportation's results for 1997 confirmed those expectations.

The Company expects 1998 to be another strong year, although it is forecast that drilling activity levels in 1998 will be less than 1997 due to lower oil prices. The Company is carefully monitoring these levels due to the short-term impact on the Company's revenue and profits. We see this as a short-term concern, however, as oil and gas drilling levels are expected to increase again in 1999 and there will be higher demand for our services created by the major capital projects that are anticipated. Mullen Transportation is financially strong with $32.5 million cash, $45.5 million working capital and minimal debt of $5.3 million. This strength positions the Company to pursue up to $70.0 million in acquisitions and a capital expenditure budget of $10.6 million is planned in 1998.

Management's Statement of Responsibility

The accompanying financial statements of Mullen Transportation Inc. have been approved by the Board of Directors and have been prepared in accordance with generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with these financial statements. All information, including financial, in this annual report is the responsibility of management.

Management maintains accounting control systems designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, financial records are accurately maintained and statements are generated in a timely manner.

The Board of Directors and management have established corporate governance practices that are consistent with guidelines set out in the report issued by The Toronto Stock Exchange Committee on Corporate Governance in Canada.

The Board of Directors oversees the management of the business and the affairs for the Company including ensuring management fulfills its responsibility for financial reporting, and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors, comprised of three (3) members considered to be "outside" and "unrelated" directors, has reviewed the financial statements with management and the external auditors. An independent firm of chartered accountants appointed as external auditors by the shareholders, has audited the financial statements and its report is included herein.

Murray K. Mullen
President and Chief Executive Officer

David E. Olson
Vice-President, Finance and Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Mullen Transportation Inc. as at December 31, 1997 and 1996 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants
Calgary, Canada

February 23, 1998

Mullen Transportation Inc.
at December 31, 1997 and 1996
($ thousands)

	1997	1996
ASSETS		
Current assets		
Cash	**$ 32,527**	$ 14,459
Accounts receivable	**35,688**	32,481
Inventory	**2,027**	2,058
Prepaid expenses	**928**	940
	71,170	49,938
Fixed assets *(note 3)*	**64,163**	63,470
Other assets *(note 4)*	**1,998**	613
	$ 137,331	$ 114,021
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 19,255**	$ 16,979
Income taxes payable	**5,904**	1,991
Current portion of long-term debt *(note 6)*	**496**	1,946
	25,655	20,916
Long-term debt *(note 6)*	**4,795**	7,493
Deferred income taxes	**10,964**	9,715
Shareholders' equity		
Share capital *(note 7)*	**34,486**	33,254
Retained earnings	**61,431**	42,643
	95,917	75,897
Contingency *(note 11)*		
	$ 137,331	$ 114,021

See accompanying notes to consolidated financial statements.

Approved by the Directors:

M Mullen

Director

R Mullen

Director

Mullen Transportation Inc.
Years ended December 31, 1997 and 1996
($ thousands)

	1997	1996
Revenue	**$ 228,522**	$ 183,317
Expenses		
Direct operating	**160,726**	134,049
Selling and administrative	**25,611**	19,726
Operating income before the following	**42,185**	29,542
Depreciation and amortization	**6,559**	6,249
Interest on long-term debt	**552**	906
Other interest	**125**	109
Gain on sale of assets	**(365)**	(15)
	6,871	7,249
Income before income taxes	**35,314**	22,293
Provision for income taxes *(note 8)*		
Current	**15,277**	8,932
Deferred	**1,249**	1,776
	16,526	10,708
Net income	**18,788**	11,585
Retained earnings, beginning of year	**42,643**	31,058
Retained earnings, end of year	**$ 61,431**	$ 42,643
Earnings per share	**$ 1.43**	$ 0.89
Fully diluted earnings per share	**$ 1.36**	$ 0.85

See accompanying notes to consolidated financial statements.

Mullen Transportation Inc.
Years ended December 31, 1997 and 1996
($ thousands)

	1997	1996
Cash provided by (used in):		
Operations		
Net income	**$ 18,788**	$ 11,585
Items not involving cash:		
Depreciation and amortization	**6,559**	6,249
Gain on sale of assets	**(365)**	(15)
Deferred income taxes	**1,249**	1,776
Changes in non-cash working capital items	**3,069**	2,318
	29,300	21,913
Financing activities		
Additions to long-term debt	**–**	1,605
Net proceeds of common share issues	**1,232**	382
Repayment of long-term debt	**(4,148)**	(7,079)
	(2,916)	(5,092)
Investing activities		
Proceeds on sale of fixed assets	**3,532**	7,305
Acquisitions *(note 2)*	**(2,601)**	(14,971)
Fixed asset additions	**(7,715)**	(6,861)
Other assets	**(1,532)**	(59)
	(8,316)	(14,586)
Increase in cash	**18,068**	2,235
Cash, beginning of year	**14,459**	12,224
Cash, end of year	**$ 32,527**	$ 14,459

See accompanying notes to consolidated financial statements.

Mullen Transportation Inc.

Years ended December 31, 1997 and 1996

On January 1, 1997, Mullen Trucking Ltd. changed its name to Mullen Transportation Inc. (the "Company").

1. **Significant accounting policies**

(a) Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All amounts are in the thousands of dollars except as otherwise noted.

(b) Cash

Cash is defined as cash and short-term investments. The Company's short-term investments are considered to be cash equivalents and are recorded at cost, which approximates current market value.

(c) Fixed assets and depreciation

Fixed assets are recorded at cost. Depreciation on additions and disposals is prorated from the month of purchase or disposal. Depreciation is provided over the estimated useful lives of the assets on the diminishing balance basis at the following rates:

Buildings	**2.5 – 8%**
Trucks and trailers	**10%**
Equipment, furniture and fixtures	**20%**
Satellite communications equipment	**20%**
Automobiles, computer equipment and computer software	**30 – 50%**

(d) Inventory

Inventory consists of parts, fuel and tires and is valued at the lower of cost and net realizable value, cost being determined on a weighted average basis.

(e) Per share data

Earnings per share has been calculated using the weighted average number of common shares outstanding during the year which amount to 13,175,576 shares (1996 – 13,003,244 shares). Fully diluted earnings per share reflect the dilutive effect of the exercise of share options outstanding at December 31, 1997. The number of shares for the fully diluted earnings per share calculation was 13,947,579 shares (1996 – 13,803,711 shares).

2. **Acquisitions**

(a) On May 1, 1997 the Company acquired the transportation assets of a private company for cash consideration of $2,601. The acquisition has been accounted for by the purchase method and the results of operations from the acquired assets have been included from the date of acquisition.

Assets		
Non-cash working capital	$	44
Fixed assets		2,557
	$	2,601
Consideration		
Cash	$	2,601

(b) On March 1, 1996 the Company acquired all the issued and outstanding shares of a group of private companies. These private companies, primarily engaged in the transportation business, were acquired for cash consideration of $14,987. The acquisition has been accounted for by the purchase method and the results of operations have been included from the date of acquisition.

Assets	
Non-cash working capital	$ 2,251
Fixed assets	18,050
	$ 20,301
Assumed liabilities	
Long-term debt	$ 3,771
Deferred income taxes	1,559
	$ 5,330
Net assets before cash	$ 14,971
Cash	16
Net cost	$ 14,987
Consideration	
Cash	$ 14,987

3. Fixed assets

December 31, 1997	Cost	Accumulated depreciation	Net book value
Land	**$ 4,495**	**$ –**	**$ 4,495**
Buildings	**11,842**	**1,727**	**10,115**
Trucks and trailers	**62,302**	**17,549**	**44,753**
Equipment, furniture and fixtures	**4,301**	**2,785**	**1,516**
Automobiles, computer equipment and computer software	**3,966**	**2,262**	**1,704**
Satellite communications equipment	**3,150**	**1,570**	**1,580**
	$ 90,056	**$ 25,893**	**$ 64,163**
December 31, 1996			
Land	$ 4,741	$ –	$ 4,741
Buildings	11,972	1,327	10,645
Trucks and trailers	57,738	14,176	43,562
Equipment, furniture and fixtures	3,007	1,714	1,293
Automobiles, computer equipment and computer software	4,257	2,628	1,629
Satellite communications equipment	2,824	1,224	1,600
	$ 84,539	$ 21,069	$ 63,470

Fixed assets include satellite communications equipment acquired through capital leases with a net book value of $193 (1996 – $242).

4. Other assets

	1997	1996
Investments, at cost (market value $1,500)	$ 1,379	$ –
Keyman life insurance, at its cash surrender value, and deposits	619	613
	$ 1,998	$ 613

5. Bank indebtedness

The Company has a $25,000 credit facility with a major Canadian chartered bank which if utilized, would bear interest at bank prime rate, or at the bankers' acceptance rate plus prime acceptance stamping fee, be payable on demand, and be secured by the collateral described in note 6(b).

6. Long-term debt

	1997	1996
Mortgages, repayable in monthly instalments of $38,334 with interest rates ranging from 7.20% to 10.73% with terms fixed to November 1998	$ 4,673	$ 5,493
Leased operator holdbacks held as security deposits, interest is paid yearly at a commercial rate, adjusted from time to time	504	448
Capital lease obligations repayable in monthly payments of $9,645 including interest at 8.5% to September 1998	114	215
Finance contracts, repayable in monthly instalments of $130,200 plus interest at bank prime rate plus 0.25% with repayment periods of up to three years	–	3,283
	5,291	9,439
Less: current portion	496	1,946
	$ 4,795	$ 7,493

During January 1998, the Company repaid a mortgage with an outstanding principal balance of $2,772.

(a) The Company has a $14,673 credit facility for real estate financing, of which $4,673 is utilized.

(b) The credit facilities are secured by a general assignment of accounts receivable, a general security agreement of certain assets of the Company, and demand collateral mortgages for $5,500 covering specific real estate.

(c) Principal repayments due over the following years are:

1998	$ 496
1999	392
2000	403
2001	414
2002	425
Thereafter	3,161
	$ 5,291

7. **Share capital**

(a) Authorized

Unlimited number of common shares with no par value

Unlimited number of preferred shares with no par value

(b) Issued

	Common shares	Consideration
Share capital, December 31, 1995	12,963,181	$ 32,861
Stock options exercised	67,866	405
Issuance costs, net of deferred income taxes of $11	–	(12)
Share capital, December 31, 1996	13,031,047	$ 33,254
Stock options exercised	203,499	1,232
Share capital, December 31, 1997	**13,234,546**	**$ 34,486**

(c) Stock options

As at December 31, 1997 there are stock options reserved to purchase 835,134 (1996 - 866,800) common shares at prices ranging from $4.50 to $15.50 per share with expiry dates ranging from September 30, 1998 to May 26, 2007.

8. **Income taxes**

The provision for income taxes differs from the amounts which would be obtained by applying the expected Canadian income tax rates as follows:

	1997	1996
Income tax rate	**44.7%**	44.8%
Computed expected income taxes provision	**$ 15,787**	$ 9,987
Non-deductible depreciation	**257**	309
Cost of assets disposed of not deductible for tax purposes	**275**	503
Losses, the benefit of which have not been recognized	**57**	–
Other	**150**	(91)
Provision for income taxes	**$ 16,526**	$ 10,708

Non-deductible depreciation arises as a result of acquisitions of assets with a nominal value for income tax purposes.

As at December 31, 1997 fixed assets with a net book value of $6,140 (1996 - $7,322) have no cost base for income tax purposes. These differences arise primarily as a result of the acquisition of assets with nominal values for income tax purposes.

9. Commitments

The Company is committed to payments under operating leases for equipment and buildings through 2002. Annual payments required subsequent to 1997 are as follows:

1998	$ 4,210
1999	3,576
2000	495
2001	291
2002	56
	$ 8,628

10. Financial Instruments

Fair values

The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short terms to maturity. The fair value of long-term debt included in the consolidated balance sheet is as follows:

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	**$ 5,291**	**$ 4,200**	$ 9,439	$ 8,000

The fair value of long-term debt with fixed interest rates is determined at the present value of contractual future payments of principal, discounted at the current market rates of interest available to the Company for the same or similar debt instruments.

11. Contingency

Due to the nature of its operations the Company may be subject to lawsuits from accidents. Management believes that the Company's insurance is sufficient to cover any existing claims should the Company be found liable and therefore no provision has been made for any lawsuits in these accounts.

Years ended December 31 ($ thousands, unaudited)	**1997**	1996	1995	1994	1993
RATIOS – OPERATING					
Return on equity [1]	**21.9%**	16.6%	19.1%	33.1%	46.7%
Gross margin – percent of revenue [2]	**29.7%**	26.9%	26.6%	28.5%	26.7%
Selling and administrative expenses (percent of revenue)	**11.2%**	10.7%	10.7%	9.8%	9.1%
Operating ratio [3]	**84.3%**	87.3%	87.8%	83.7%	85.2%
FINANCIAL POSITION					
Acid test ratio	**2.66**	2.24	2.66	1.22	1.71
Net capital assets	**$ 64,163**	$ 63,470	$ 52,074	$ 42,207	$ 20,232
Total assets	**$ 137,331**	$ 114,021	$ 92,637	$ 73,394	$ 44,886
Long-term debt (including current portion)	**$ 5,291**	$ 9,439	$ 11,142	$ 10,089	$ 9,090
Shareholders' equity	**$ 95,917**	$ 75,897	$ 63,919	$ 38,085	$ 22,863
Debt to equity ratio [4]	**0.06**	0.12	0.17	0.32	0.41
Cash flow [5]	**$ 26,231**	$ 19,595	$ 14,376	$ 13,099	$ 7,565
Cash flow per share [6]	**$ 1.99**	$ 1.51	$ 1.30	$ 1.24	$ 0.93
COMMON SHARE DATA					
Book value per share [7]	**$ 7.25**	$ 5.82	$ 4.93	$ 3.45	$ 2.22
Earnings per share [8]	**$ 1.43**	$ 0.89	$ 0.73	$ 0.93	$ 0.64
Price earnings ratio [9]	**14.7**	17.4	13.5	7.5	7.4
Weighted average of number of common shares outstanding	**13,175,576**	13,003,244	11,063,779	10,536,774	8,121,575

(1) *Return on equity was calculated by dividing net earnings by average shareholders' equity.*
(2) *Gross margin was calculated by dividing sales less direct operating costs by sales.*
(3) *Operating ratio was calculated by subtracting from 100 percent the total cost before taxes, interest and non-recurring management fees as a percentage of revenue.*
(4) *Debt to equity ratio was calculated by dividing total debt by shareholders' equity.*
(5) *Cash flow is calculated as cash from operations before the effect of changes in non-cash working capital items.*

Years ended December 31 ($ thousands, unaudited)	**1997**	1996	1995	1994	1993
Revenue	**$ 228,522**	$ 183,317	$ 134,609	$ 112,747	$ 72,638
Expenses					
Direct operating	**160,726**	134,049	98,743	80,664	53,251
Selling and administrative	**25,611**	19,726	14,439	11,117	6,605
OPERATING INCOME BEFORE UNDERNOTED ITEMS	**42,185**	29,542	21,427	20,966	12,782
Depreciation and amortization	**6,559**	6,249	5,259	3,037	1,906
Interest on long-term debt	**552**	906	955	692	644
Other interest	**125**	109	150	105	80
Loss (gain) on disposal of fixed assets	**(365)**	(15)	(292)	(472)	132
Non-recurring management fees	**–**	–	–	–	600
	6,871	7,249	6,072	3,362	3,362
INCOME BEFORE INCOME TAXES	**35,314**	22,293	15,355	17,604	9,420
PROVISION FOR INCOME TAXES					
Current	**15,277**	8,932	5,946	7,070	3,893
Deferred	**1,249**	1,776	1,297	754	317
	16,526	10,708	7,243	7,824	4,210
NET INCOME	**18,788**	11,585	8,112	9,780	5,210
RETAINED EARNINGS					
Beginning of year	**42,643**	31,058	22,946	13,166	7,956
RETAINED EARNINGS					
End of Year	**$ 61,431**	$ 42,643	$ 31,058	$ 22,946	$ 13,166

(6) *Cash flow per share is calculated by dividing cash flow by weighted average number of shares outstanding.*
(7) *Book value per share is calculated by dividing common shareholders' equity by the number of common shares outstanding.*
(8) *Earnings per share was calculated by dividing net income by the weighted average number of shares outstanding.*
(9) *Price earnings ratio was calculated by dividing year end closing price by earnings per share.*

STOCK TRADING SUMMARY

($ per share)	High	Low	Close	Volume
1997 Q1	18.45	15.00	16.00	474,022
1997 Q2	19.00	13.75	18.50	1,434,766
1997 Q3	31.00	18.00	28.50	1,117,457
1997 Q4	31.00	21.00	21.00	713,957
1997 Summary	31.00	13.75	21.00	3,740,202

SHAREHOLDER INFORMATION

Mullen Transportation Inc. offered its first block of shares to the public in late 1993. A total of 2,325,000 shares were offered at $4.50 per share. The shares were listed for trading on The Toronto Stock Exchange on December 14, 1993. Since that time, Mullen Transportation's shares have traded well above the issue price in a range of $4.50 to $31.00. A special warrants issue was closed on December 28, 1995 and 1,915,000 shares were issued for net proceeds of approximately $17 million. On January 2, 1997, a corporate restructuring was completed to better reflect the business of the Company and prepare for future growth. In conjunction with the restructure, the name of the corporation was changed to Mullen Transportation Inc. The number of common shares beneficially owned directly or indirectly by all of the directors and senior officers of the Company as a group as at December 31, 1997 represented approximately 43 percent of the outstanding common shares with roughly 7,500,000 shares in the public float. These shares are held primarily by institutional holders in Canada.

DIRECTORS AND OFFICERS

Roland O. Mullen [2]
Chairman and Director

Murray K. Mullen
President and Chief Executive Officer and Director

Bruce W. Mullen [3]
Senior Vice President and Director

David E. Mullen
Senior Vice President and Director

Francis M. Saville, Q.C. [2] [3]
Director

K. Guy Nelson [1]
Director

Bruce W. Simpson [1] [3]
Director

S. Patrick Shouldice [1] [2]
Director

Robert J. Baldwin
Vice President, Quality and Training and Corporate Secretary

David E. Olson
Vice President, Finance and Chief Financial Officer

[1] Member of the Audit Committee
[2] Member of the Compensation, Nomination and Corporate Governance Committee
[3] Member of the Health, Safety and Environment Committee

HEAD OFFICE

Mullen Transportation Inc.
P.O. Box 87
#1 Maple Leaf Road
Aldersyde, Alberta T0L 0A0

Telephone: (403) 652-8888
Canada/US: 1-800-661-1469
Facsimile: (403) 652-2362
Internet: www.mullen-trans.com
Email: mullenho@nucleus.com

BANKER

The Royal Bank of Canada
Calgary, Alberta

LEGAL COUNSEL

Carscallen Lockwood Cormie
Calgary, Alberta

AUDITORS

KPMG
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company
Calgary, Alberta

STOCK EXCHANGE

The Toronto Stock Exchange
Trading Symbol: MTL

NOTICE OF ANNUAL GENERAL MEETING

The annual meeting of shareholders of Mullen Transportation Inc. will be held on Thursday, May 7, 1998 at 3:00 p.m. in the McMurray Room at the Calgary Petroleum Club, 319 – 5th Avenue S.W., Calgary, Alberta.

Created by Result Communications Ltd.

Mullen Transportation Inc.

P.O. Box 87
#1 Maple Leaf Road
Aldersyde, Alberta T0L 0A0

Printed in Canada